

TESTIMONY BEFORE THE VIRGINIA JOINT SUBCOMMITTEE STUDYING
MANUFACTURING NEEDS AND THE FUTURE OF MANUFACTURING IN VIRGINIA

August 17, 2004

Mr. Chairman and members of the Joint Subcommittee.

I'm Richard Kelly, the Vice President of Purchasing for Philip Morris, USA.

I am pleased to participate in this hearing in an effort to provide a more in-depth understanding of the manufacturing industry, especially the related, extensive supply chain. I feel very strongly that preserving a strong manufacturing base in Virginia is critical to maintaining, and growing, the Commonwealth's economy. A strong economy provides the resources necessary for delivery of key services to our families and communities – among them are health care, education and emergency services.

Manufacturing is the cornerstone of a strong economy. Manufacturing sounds like an old industrial term. I think about it as making products, tangible things that we all see and use. Creating and making goods, or improving processes (another part of manufacturing) has a strong impact on many of other business sectors – services, transportation, finance and insurance, retail and wholesale trade, and many others. As this sector grows it provides much of the funding required for research and development. The R&D, in turn, spurs innovation and increases productivity. Additionally, manufacturing has a strong multiplier effect. Each \$1 million in



manufacturing sales results in 8 related manufacturing jobs and 6 jobs in the supply chain. (*The Facts about Modern Manufacturing*, National Association of Manufacturers, 6th edition)

Today I want to use Philip Morris as an example to show that manufacturing is more than meets the eye.

However, let me start with what does meet the eye. Many of you know us by our landmark manufacturing facility in south Richmond, or because of our recent move from New York to the historic headquarters building just west of Richmond. But you may not be familiar with the following:

- Our current Richmond manufacturing facility began operations in 1973. It is one of the world's largest and most technology intensive cigarette manufacturing facilities, located on a 200-acre site, with buildings that cover a total of 43 acres, equating to 1.6 million square feet under one roof. The Richmond Manufacturing Center produces approximately 600 million cigarettes a day, ships approximately 3 million cartons of cigarettes a day, and processes an average of 1.1 million pounds of tobacco a day.

- A \$300 million expenditure on capital infrastructure at our Richmond facilities is currently underway. The majority of those expenditures represents upgrades at our Richmond Manufacturing facility.



- Philip Morris USA has created an entire R&D center as part of our Richmond operations. Typical of other manufacturers, we dedicate significant resources to R&D to develop new and better products and better processes.

- Of the more than 12,000 Philip Morris USA employees throughout the United States, approximately 6,300 live and work in Virginia. Philip Morris USA contributes over \$600 million annually to the Virginia economy through payroll and benefits. In addition, there are nearly 4,400 retirees who reside in Virginia and contribute to the state's economic base.

- Approximately one-half of the Richmond area employees are hourly workers represented by two unions: The International Association of Machinists and Aerospace Workers – and – the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union. The average tenure of a union-represented employee is 22 years. This long tenure helps provide stability for the surrounding communities.

- Another benefit to surrounding communities is the investment in those communities by employees. As you may have read recently in the local papers, the Philip Morris Employee Community Fund just announced over \$2.5 million in donations to organizations located in Central Virginia.



With that more complete picture of Philip Morris USA, I now want to focus on what the eye sometimes does not see, the extensive supply chain. As you can see from the map behind me, our manufacturing supply chain touches all corners of the Commonwealth. Philip Morris USA's involvement in the economic life of the Commonwealth is felt in virtually every locality in Virginia.

- Philip Morris USA contributes to the economic life of the Commonwealth through our relationships with all of our suppliers – not just growers. Last year, Philip Morris USA paid about \$850 million for goods and services purchased from 1,100 suppliers with facilities in Virginia. You can see that Philip Morris USA – one of many manufacturers in the Commonwealth -- has relationships with growers and suppliers that have facilities across the length and breadth of the Commonwealth.

- In 2003, Philip Morris USA purchased Virginia flue cured and Burley tobacco from over 1,500 growers in Virginia. This represents approximately 50% of all Burley and approximately 36% of all flue cured tobacco grown in Virginia.

- In all, we spend over \$300 million on tobacco purchases from growers, tobacco processing, freight costs, and warehousing – all in Virginia



- Philip Morris USA utilizes two privately-owned tobacco receiving stations in Virginia. These facilities, located in Danville and South Hill, employ 81 people full and part-time.

- Philip Morris USA is a major exporter to all corners of the globe. In 2002, we exported over \$1 billion worth of goods – most of it through Virginia's ports. About half of our exports were finished products -- cigarettes – the other half was raw materials and supplies for foreign manufacturers.

- We are also a major importer, bringing over \$320 million of supplies through Virginia's ports.

- Combined, in 2002, Philip Morris USA was directly responsible for over 33,000 shipping containers traveling through Virginia ports in Richmond and Hampton Roads.

- And, lets not forget the air travel required to service our export markets, buy tobacco leaf materials from around the world and to conduct scientific research has our scientists and business managers constantly using Virginia airports (another service sector).



- All of this economic activity goes into the production of cigarettes. Once produced, we use an extensive distribution network of wholesalers, distributors and retailers across Virginia and the nation.

- Finally, in addition to the economic impact from our employees, manufacturing plant and purchases from growers and suppliers – there are significant benefits that accrue to the state from having large companies as part of the community. Philip Morris USA is committed to playing an active role in community development. This results in millions of dollars of investments in colleges, universities, local schools systems and cultural organizations.

The message in all these points is that because of the length and breadth of the supply chain a strong manufacturing sector benefits many other economic sectors – transportation, finance and insurance, retail and wholesale trade, other manufacturing, and services. As you see from the map, while the tobacco growers are primarily scattered in Southwest and Southside Virginia, our suppliers are largely clustered around our facilities. If a manufacturing plant moves elsewhere or expands outside the Commonwealth the associated suppliers also move or expand elsewhere.

I draw your attention to this simply to reinforce the point that, while a rising tide may raise all ships, manufacturing is not a ship, it is part of the tide. Any action you take that impacts the manufacturing sector – positively or negatively – will have a far reaching impact as it ripples through the supply chain. Strengthening the manufacturing sector



helps raise the overall economic tide in Virginia and strengthens all the other components of our extensive supply chain.

Many families, communities, businesses and economic sectors across Virginia rely on a strong manufacturing industry. Philip Morris USA is one piece of this much larger puzzle. My hope is that by better understanding our business and supply chain network you might better understand the broader role of manufacturing within the Commonwealth's economy.

Thank you for devoting your time to studying manufacturing and learning more about the tremendous role it plays in our Commonwealth's economy.

